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BEFORE THE ARIZONA CORPORATION COMMISSION

DOUG LITTLE
Chairman
BOB STUMP
Commissioner
BOB BURNS
Commissioner
TOM FORESE
Commissioner
ANDY TOBIN
Commissioner

IN THE MATTER OF THE APPLICATION
OF UNS ELECTRIC, INC. FOR THE
ESTABLISHMENT OF JUST AND
REASONABLE RATES AND CHARGES
DESIGNED TO REALIZE A
REASONABLE RATE OF RETURN ON
THE FAIR VALUE OF THE PROPERTIES
OF UNS ELECTRIC, INC. DEVOTED TO
ITS OPERATIONS THROUGHOUT THE
STATE OF ARIZONA AND FOR
RELATED APPROVALS

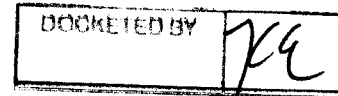
DOCKET NO. E-04204A-12-0504
75593
DECISION NO. _____

ORDER

Arizona Corporation Commission
DOCKETED

JUN 27 2016

Open Meeting
June 14, 2016 and June 15, 2016
Phoenix, Arizona



BY THE COMMISSION:

FINDINGS OF FACT

1. UNS Electric, Inc. ("UNS Electric" or "Company") is certificated to provide electric service as a public service corporation in the State of Arizona.

2. On April 15, 2016, UNS Electric, Inc. filed an application with the Arizona Corporation Commission ("Commission") requesting approval of its annual Lost Fixed Cost Recovery Mechanism ("LFCR") adjustment, effective July 1, 2016. The LFCR allows for the recovery of lost fixed costs, as measured by revenue per kWh, associated with the amount of energy efficiency ("EE") savings and distributed generation ("DG") that is authorized by the Commission and determined to have occurred.

1 3. UNS Electric is requesting that the LFCR rate be set at 0.9394 percent for energy
2 efficiency and 0.2424 percent for distributed generation.

3 **Description of the LFCR**

4 4. In Decision No. 74235 (December 31, 2013), the Commission approved the LFCR
5 which provides for the recovery of lost fixed costs, as measured by a reduction in non-fuel revenue,
6 associated with the amount of EE savings and DG that is authorized by the Commission and
7 determined to have occurred. Costs to be recovered through the LFCR include the portion of
8 transmission and distribution costs included in base rates exclusive of the Customer Charge and 50
9 percent of the demand rates in effect.

10 5. The LFCR also includes an annual 1 percent year-over-year cap based on Applicable
11 Company Revenues ("ACR"). If the annual incremental LFCR adjustment results in a surcharge in
12 excess of 1 percent, in total, of ACR, any amount in excess of the 1 percent cap will be deferred for
13 collection until the next year. Any deferred amounts will be collected in a subsequent year or rolled
14 into the next rate case, whichever occurs first. Where the 1 percent cap limits the recovery of
15 deferrals in any program year, and thus moves their recovery to the following year, a first-in, first-out
16 ("FIFO") approach will be applied. In connection therewith, the new surcharges billed in the
17 following year will first recover any such carried-over deferrals, and then recover new deferrals arising
18 in that following year. The one-year Nominal Treasury Constant Maturities rate contained in the
19 Federal Reserve Statistical Release H-15 or its successor publication will be applied annually to any
20 deferred balance. The interest rate shall be adjusted annually and shall be that annual rate applicable
21 to the first business day of the calendar year.

22 6. The Plan of Administration ("POA") describes how the LFCR operates. By May 15th
23 of each year, UNS Electric will file the calculated Annual LFCR adjustments, including all Compliance
24 Reports, with the Commission for the previous year. Staff will use its best efforts to process the
25 matter based on the results of the Company's annual EE/DSM and Renewable Energy Standard and
26 Tariff ("REST") filing such that the new LFCR Adjustments may go into effect by July 1st of each
27 year. However, the new LFCR Adjustments will not go into effect until approved by the Commission.

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1 7. In Decision No. 74694, the Commission approved an amendment of the POA to
2 include the addition of a Balancing Account. The Balancing Account permits the Company to true-up
3 any under-collected or over-collected approved Lost Fixed Cost Revenues in the immediate 12-month
4 collection period during the subsequent LFCR adjustment. UNS Electric's current filing includes two
5 adjustments to the Balancing Account. The first is to account for a miscalculation regarding energy
6 efficiency savings for CFL bulbs that affected 2013 and 2014 energy efficiency figures. The second is
7 to true up LFCR calculations that were estimated in the Company's previous filing for March-June of
8 2015.

9 8. Residential customers can choose a Fixed Cost Option instead of the variable LFCR
10 adjustment. The optional fixed rate consists of an incremental charge added to the monthly Customer
11 Charge in the applicable residential rate schedule. Any dollars paid for the incremental charge will be
12 used to reduce the total Lost Fixed Cost Revenue recovered as part of the LFCR adjustment. To date,
13 no UNS Electric customers have chosen this option.

14 **Staff Analysis**

15 9. Staff has reviewed the data UNS Electric used in the calculation of the LFCR rate.
16 Staff has found that the LFCR percentages are calculated in accordance with the POA as approved by
17 the Commission. This calculation is shown in Schedules 1 through 5 (Attachment A) of the
18 application. Staff has also reviewed the additional adjustments to the Balancing Account and found
19 them to be appropriate. According to the calculations, and in accordance with the POA, the LFCR
20 charge would be 0.9394 percent for EE and 0.2424 percent for DG, resulting in an approximate
21 recovery of \$1,960,408 for the 12-month collection period beginning July 1, 2016.

22 10. UNS Electric provided bill impact calculations for residential customers subject to the
23 LFCR, and has calculated that for the average residential customer, using an average of 850 kWh per
24 month, the customer's bill would increase by \$0.29 per month.

25 **Staff Recommendations**

26 11. Staff recommends LFCR rates of 0.9394 percent for EE and 0.2424 percent for DG
27 be approved and become effective July 1, 2016.

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1 12. Staff further recommends that UNS Electric file a revised Statement of Charges
2 consistent with the Decision in this matter within 15 days of the effective date of the Decision.

3 CONCLUSIONS OF LAW

4 1. UNS Electric, Inc. is a public service corporation within the meaning of Article XV,
5 section 2 of the Arizona Constitution and A.R.S. §§ 40-250,40-251,40-367,40-202,40-321, and 40-361.

6 2. The Commission has jurisdiction over UNS Electric, Inc. and the subject matter
7 discussed herein.

8 3. The Commission, having reviewed the filing and Staff's Memorandum dated June 9,
9 2016, concludes that it is in the public interest to grant approval as proposed and discussed herein.

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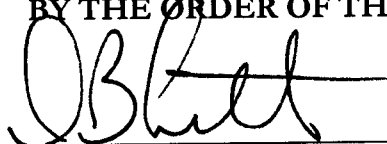
ORDER

IT IS THEREFORE ORDERED that Lost Fixed Cost Revenue rates of 0.9394 percent for Energy Efficiency and 0.2424 percent for Distributed Generation are hereby approved for UNS Electric, Inc. and shall become effective July 1, 2016.

IT IS FURTHER ORDERED that UNS Electric shall file a revised Statement of Charges consistent with the Decision in this matter within 30 days of the effective date of the Decision.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION



CHAIRMAN



COMMISSIONER



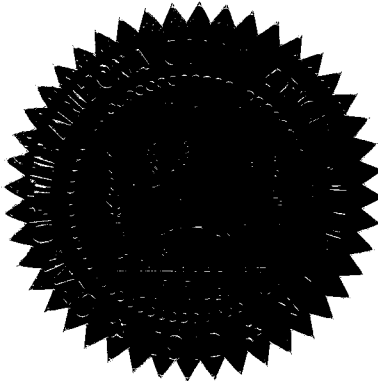
COMMISSIONER



COMMISSIONER



COMMISSIONER



IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 27th day of June, 2016.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

TMB:EAH:red/MAS

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